

Allocation of State Funding to Regents Universities

ISSUE

This *Issue Review* compares changes in State funding for general education at the three State universities to changes in enrollment between FY 2001 and FY 2015 and addresses the performance-based funding (PBF) formula adopted by the Board of Regents in 2014.

AFFECTED AGENCIES

Board of Regents

State Universities

CODE AUTHORITY

Iowa Code chapters [262](#), [263](#), [266](#), and [268](#)

BACKGROUND

In 2014, the Board of Regents adopted a performance-based funding formula (PBF) for allocation of State general education funding between the three State universities. In submitting the FY 2016 general education budget request, the Board requested the General Assembly to allocate funding according to the formula. This generated questions regarding the allocation of funding in previous years.

The Board has identified past legislative practice in this regard as “base plus” — applying an identical percentage to the previous year’s appropriation for each university. There is no written record regarding the General Assembly’s reasoning behind allocation decisions in previous years. The historical appropriations, however, reflect a “base plus” pattern to some extent. It appears that both the Board’s request and the General Assembly’s allocation decision in most years has been based on a single percentage increase for all three schools, with frequent but mostly minor adjustments made to address specific concerns at individual institutions.

The Regents’ PBF formula places a heavy emphasis on resident student enrollment. For that reason, the role of enrollment in the allocation decision has been a subject of discussion. Comparing funding to changes in enrollment over the past 14 years makes it clear that enrollment has rarely, if ever, been a significant factor in allocation decisions in the past.

While the first two funding charts in this document extend back to FY 1990, most of the analysis will address FY 2001 to FY 2015 due to availability of full-time equivalent (FTE) enrollment data.

IOWA’S PERFORMANCE-BASED FUNDING FORMULA

In 2013, with interest in performance-based funding of higher education growing across the nation, the Board of Regents appointed a task force to consider a performance-based revenue

model for the three State universities. The Board and the task force expressed concern that continuing to allocate funding between the universities using a base-plus model was not adequately addressing the unique needs and occasional extraordinary circumstances of the universities. On June 4, 2014, the task force presented its findings to the Board, and the Board adopted the following PBF model for consideration by the Governor and the General Assembly in FY 2016:¹

Performance-Based Funding Metrics	
60% Resident Enrollment	Three-year rolling average headcount of full-time resident undergraduates and full-time equivalent enrollment of resident graduate and professional students.
5% Graduate/ Professional Students	Three-year rolling average full-time equivalent enrollment of all graduate and professional students.
5% Student Progress	Number of resident undergraduates achieving credit hour thresholds of 24, 48, and 72.
10% Number of Graduates	Number of graduates in the most recently completed academic year, including Bachelor's, Master's, and Doctoral/Professional.
10% Access	Three-year rolling average enrollment of low-income students (part-time Pell Grant recipients and full-time students with need based on Expected Family Contribution), minority students, Iowa community college transfers, and veterans.
5% Sponsored Research	Sponsored research dollars for the most current year.
5% Customized Metrics	Determined by the Board of Regents (BOR). For FY 2016, this portion of funding will be distributed in the same proportion as the other metrics combined. The BOR will customize metrics in FY 2017.

To fully implement the formula in FY 2016 would have required a shift of \$46.5 million in State funding from the University of Iowa (UI) to Iowa State University (ISU) and the University of Northern Iowa (UNI), a 20.1% loss to UI of its State general aid compared to FY 2015.

Attachment A details the formula calculation for FY 2016.

The Board determined, instead, to pursue a three-year phase-in and to limit the reduction of funding for a university in any single year to 2.0% of the most recently completed year's general education revenue. In addition, for FY 2016, the Board agreed to request an increase in State funding in the amount necessary to protect the UI from the 2.0% reduction.

In October 2014, the Board submitted a request to the Governor and the General Assembly for FY 2016 State funding that included a 1.75% increase in general education funding for each university (totaling \$8.8 million) and \$13.0 million in additional funding for ISU and the UNI to begin phasing in the new funding formula without a reduction to the UI.

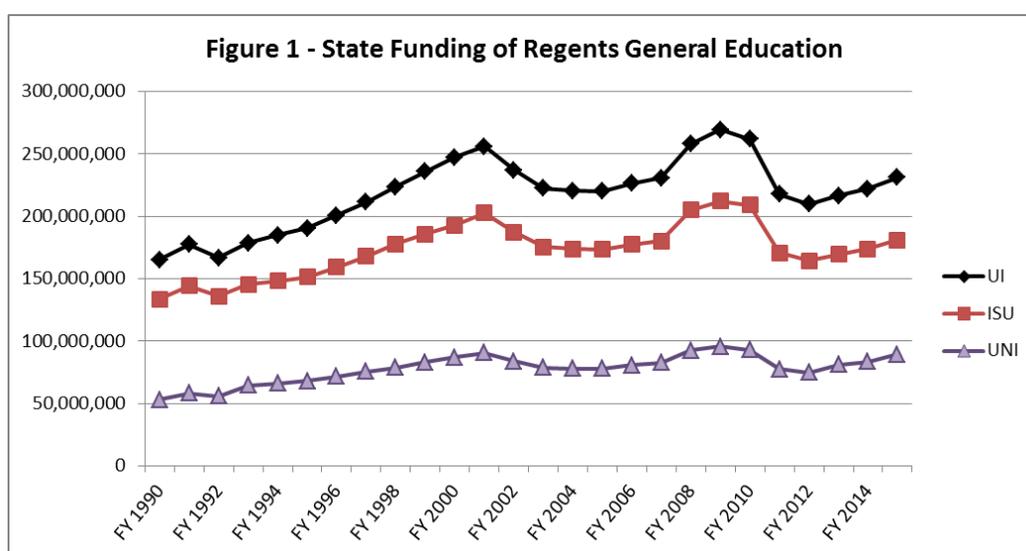
The Governor's proposed FY 2016 budget recommended the 1.75% increase but only an additional \$4.0 million for the funding formula implementation. When legislative action was

¹ Documents related to the Performance-Based Revenue Model Task Force, including the final report, are available at www.regents.iowa.gov/pbtf/performancebasedtaskforce.pdf.

completed, the General Assembly chose not to allocate FY 2016 funding based on the PBF formula.²

CHANGES IN STATE FUNDING

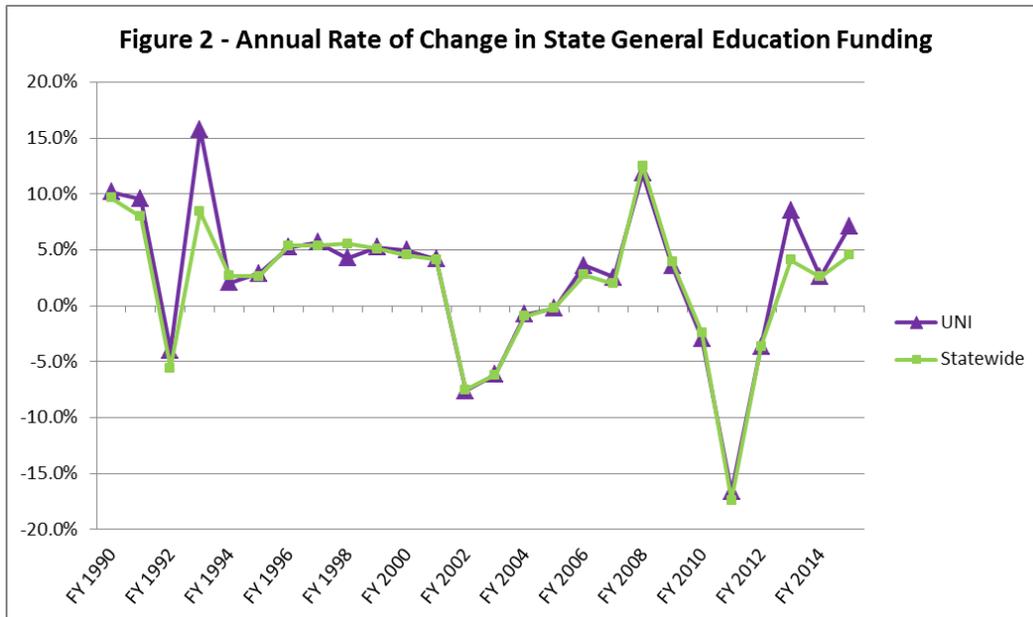
Figure 1 shows State general education funding for the past 25 years by university. Between FY 1990 and FY 2015, State funding for general education at the three State Universities increased by \$149.5 million or 42.5%. Limiting the scope to the past 14 years (FY 2001 - FY 2015), however, shows that general education funding decreased \$48.0 million or 8.7%. In many years, annual increases were determined using the same or nearly the same percentage increases for all three universities. This is reflected in the gradually increasing distance between the three lines in **Figure 1**. In FY 1990, the difference between State funding for the UI and the UNI was \$112.0 million. In FY 2015, the difference was \$141.7 million.



The FY 2015 general education appropriation for the UI was 9.7% less than the FY 2001 appropriation, while the appropriation for ISU was 10.7% lower. The appropriation for the UNI decreased 1.6% compared to FY 2001. The smaller decrease for the UNI reflects two large annual increases (FY 2013 and FY 2015) intended to address the school's financial disadvantage resulting from a larger proportion of students paying the lower resident tuition rate. It would appear from **Figure 2** that the UNI received a similar large increase in FY 1993. (**Figure 2** shows the annual rate of change in funding for the UNI and for the three universities combined (Statewide) from FY 1990 to FY 2015. The change rates for the UI and ISU are nearly identical to the statewide line in **Figure 2**.)³

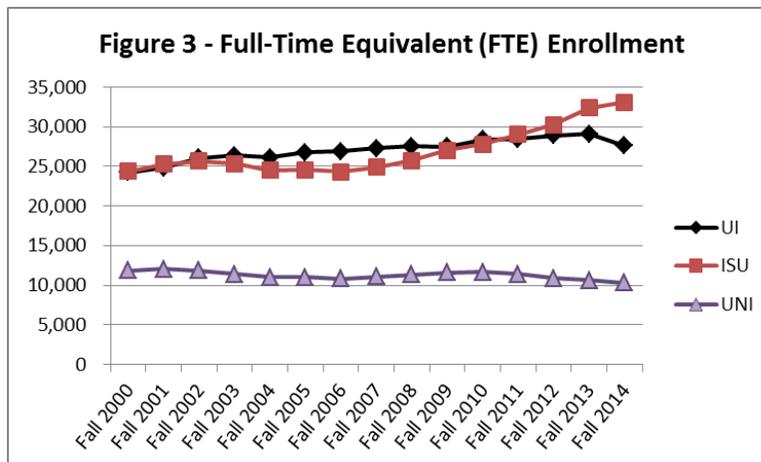
² Final FY 2016 appropriations to the Board of Regents and the State universities are available on the Legislative Services Agency website at www.legis.iowa.gov/docs/NOBA/86_HF658_Final.pdf.

³ The large FY 2011 decrease in funding in the graphs in this document reflects one-time federal stabilization funding appropriated to the Board of Regents in FY 2010 in response to the national economic recession.



COMPARISON OF FUNDING TO ENROLLMENT

Between Fall 2000 and Fall 2014, combined full-time equivalent (FTE) enrollment for the three State universities grew 17.3% from 61,000 to 71,000. This includes resident and nonresident students and all levels of education. **Figure 3** shows the FTE enrollment for each university over that time.



While enrollment was growing between FY 2001 and FY 2015, State funding for general education decreased 8.7%. **Figure 4** compares the annual change in State general education funding to the annual change in FTE enrollment (FTEE).

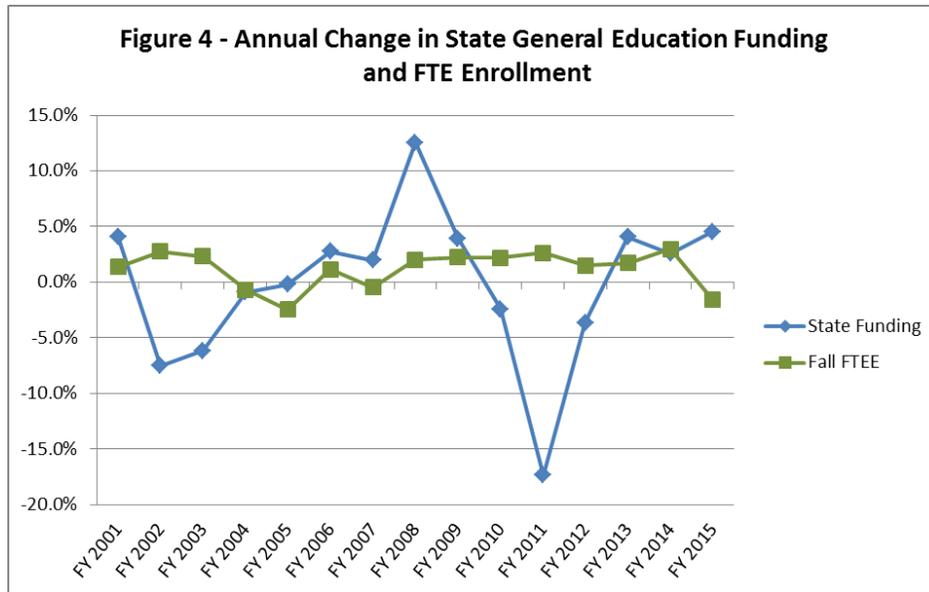
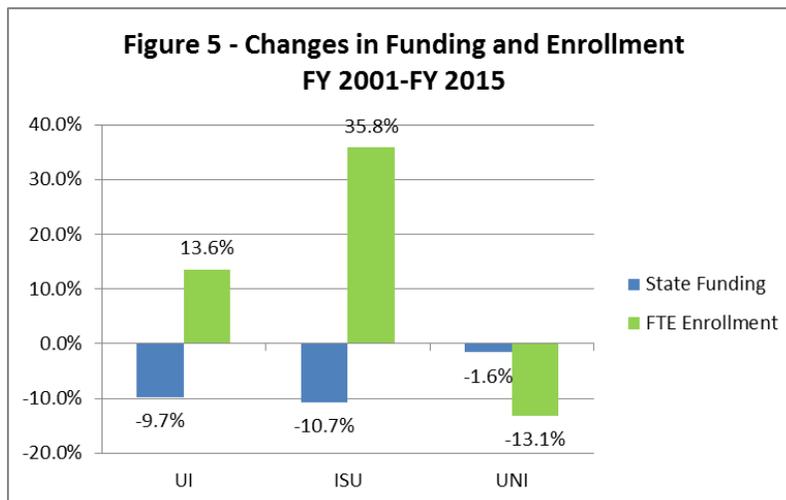


Figure 5 shows the change in funding and enrollment for each university between FY 2001 and FY 2015. Enrollment at ISU experienced extraordinary growth in several of the included years, the largest being 5.0% in Fall 2009 and 7.0% in Fall 2013. The UNI enrollment began decreasing in Fall 2011, during and after a controversial restructuring that included the elimination of several programs.



RESIDENT ENROLLMENT

Prior to Fall 2004 (FY 2005), the Board of Regents did not report FTE enrollment by residency in annual enrollment reports. In order to address the 14-year period from FY 2001 to FY 2015, the analysis related to resident enrollment is based on headcount enrollment.

The PBF model allocates 60.0% of State general education funding on the basis of each university’s share of total resident enrollment. The emphasis on resident student enrollment generated significant discussion among legislators and stakeholders. The following is presented to provide context to that discussion.

From FY 2001 to FY 2015, headcount enrollment at the three universities combined grew 13.2%, from 69,000 to 78,000, with most of that growth occurring from an influx of nonresident students. Over that time, resident enrollment decreased 5.8%, while nonresident enrollment increased 66.5%. **Figure 6** shows the changes by university.

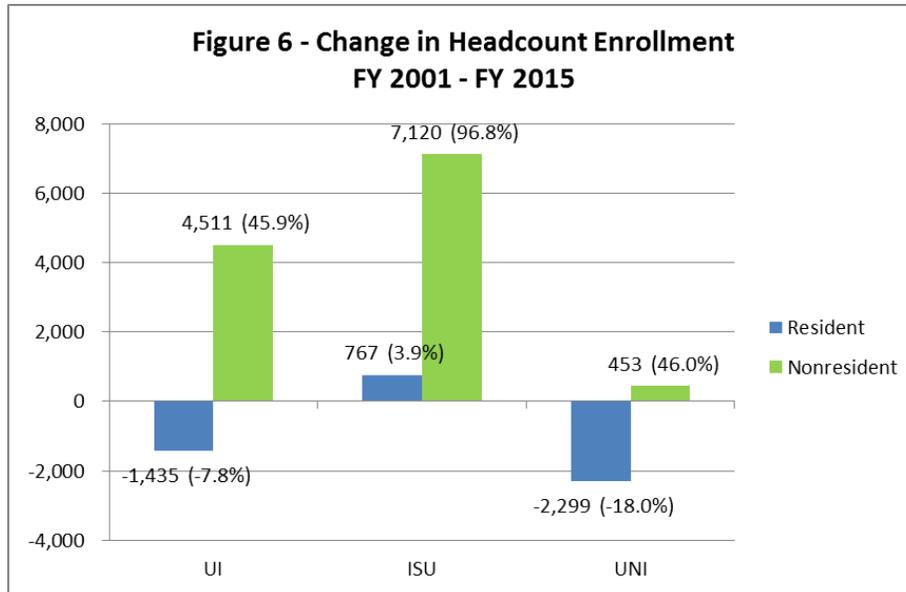
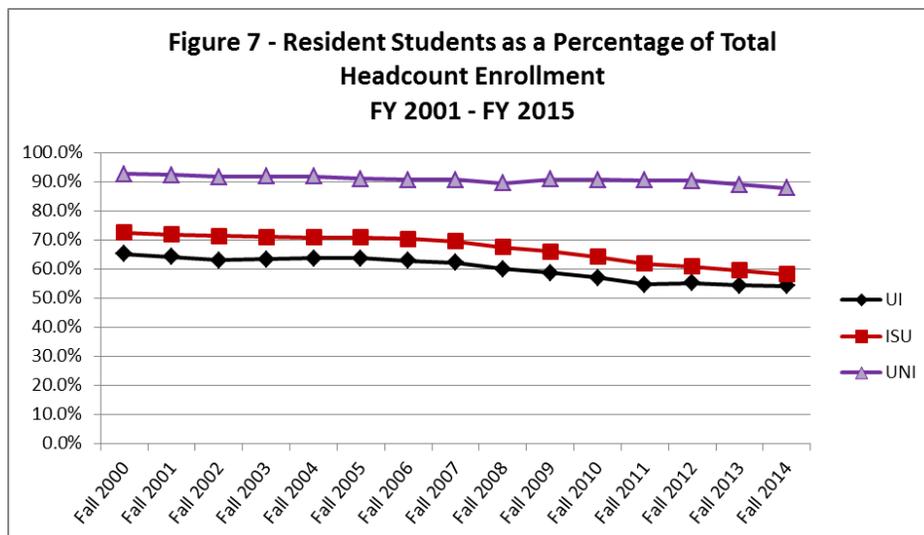


Figure 7 shows resident student enrollment as a percentage of the total headcount enrollment for each university from FY 2001 to FY 2015.



COST OF EDUCATION

The Board of Regents calculates a unit cost of instruction in odd-numbered fiscal years. The unit cost equals total annual instructional expenditures divided by the FTE enrollment. Total annual expenditures include general education fund support of instruction, research, and academic support. It also includes portions of the cost of student services, administrative support, and plant operation and maintenance attributable to instruction. It excludes building repairs, scholarships and fellowships, public service, auxiliary enterprises, health care units, and indirect costs. **Table 1** shows the undergraduate unit cost of instruction and the resident and nonresident undergraduate tuition rates by university for FY 2013.

	Unit Cost of Instruction	Resident Tuition	Nonresident Tuition
University of Iowa	\$ 11,571	\$ 6,678	\$ 24,900
Iowa State University	10,612	6,648	18,760
University of Northern Iowa	12,241	6,648	15,734

State general education funding is not restricted to supporting undergraduate or resident students. However, the universities are required by statute to charge nonresident students tuition that, at a minimum, reflects the full cost of their education.

OTHER STATES

According to the report, [Driving Better Outcomes: Typology and Principles to Inform Outcomes-Based Funding Models](#), published by HCM Strategists, as of December 2014, 26 states are implementing some kind of outcomes-based funding for public colleges and universities. Another 10 states are listed as developing or having developed but not implemented such policies. (The report included Iowa in the latter group.)

The states vary widely in design and implementation of their policies. The report categorizes the 26 implementing states into four types based on features of their policies. Only Ohio and Tennessee are included in the Type IV category, identified as the most effective plans. Both Tennessee and Ohio:

- base the formula on state-level completion goals and priorities,
- place a significant amount of each school's state funding at stake - 85.0% in Tennessee and 100.0% in Ohio,
- set completion goals as a primary metric in the formula, and
- set goals or provide incentives to prioritize underserved or underrepresented populations such as minorities, adult learners, and low-income students.

Tennessee's formula has been in place since 2010. Ohio's formula was phased in over four years and fully implemented in 2013. Ohio includes a stop-loss feature that protects each school's funding from falling below a certain level.

CONCLUSION

Nearly the entire increase in enrollment at the three universities from FY 2001 to FY 2015 has come from nonresident enrollment.

The Regents' PBF model was designed to address significant changes in resident enrollment between the three universities. Changes to the formula could be made to reduce the emphasis on resident enrollment while still allowing enrollment shifts to be addressed.

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FY 2016 Board of Regents Performance-Based Funding Calculations

Current Practice - "Base Plus" - Percentage increase on the previous year's appropriation for each university						
		UI	ISU	UNI	Total	
FY 2015	\$	230,923,005	\$ 180,945,807	\$ 89,176,732	\$ 501,045,544	<i>FY 2015 Gen University approps 1.75% increase</i>
		4,041,153	3,166,552	1,560,593	8,768,298	
FY 2016	\$	234,964,158	\$ 184,112,359	\$ 90,737,325	\$ 509,813,842	
% of total funding		46.09%	36.11%	17.80%		

BOR Request - Performance-Based Funding (PBF) - Allocate \$509,813,842 (1.75% increase on FY 2015) using PBF formula						
Metric	% of Total	UI	ISU	UNI	Total	
<i>Resident Enrollment</i>	60.0%	\$ 104,150,723	\$ 128,781,077	\$ 72,956,504	\$ 305,888,304	Full-time resident undergrad headcount plus resident grad/prof FTE
Graduate & Prof Students	5.0%	15,063,237	6,516,142	3,911,313	25,490,692	
Student Progress	5.0%	8,038,219	11,066,485	6,385,987	25,490,691	
Number of Graduates	10.0%	18,940,798	19,241,831	12,798,755	50,981,384	
Access	10.0%	16,845,287	21,686,469	12,449,629	50,981,385	
Sponsored Research	5.0%	16,038,188	9,277,346	175,159	25,490,693	
Customized Metrics	5.0%	9,425,081	10,345,754	5,719,856	25,490,691	
Total	100.0%	\$ 188,501,533	\$ 206,915,104	\$ 114,397,205	\$ 509,813,842	
% of total funding		36.97%	40.59%	22.44%		
PBF vs. Base Plus		\$ -46,462,625	\$ 22,802,745	\$ 23,659,880		Total redistribution required

BOR Proposal to Hold UI Harmless

Amount redistributed in a single year cannot exceed 2.0% of UI General Education revenues for FY 2013 or \$12,971,898.

		UI	ISU	UNI	Total	
FY 2015	\$	230,923,005	\$ 180,945,807	\$ 89,176,732	\$ 501,045,544	
1.75% increase		4,041,153	3,166,552	1,560,593	8,768,298	
New money for PBF		-	6,366,297	6,605,601	12,971,898	First of three years
FY 2016	\$	234,964,158	\$ 190,478,656	\$ 97,342,926	\$ 522,785,740	